

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6170

BILL NUMBER: SB 19

DATE PREPARED: Mar 26, 1999

BILL AMENDED: Mar 25, 1999

SUBJECT: Community revitalization enhancement districts.

FISCAL ANALYST: Diane Powers

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill allows two areas in Delaware County to be designated as community revitalization enhancement districts. (Current law: (1) provides a credit against certain state and local tax liability for a taxpayer that makes an investment for the redevelopment of property located in a community revitalization enhancement district; and (2) provides that the incremental amount of state and local income taxes and state sales tax collected from a community revitalization enhancement district are distributed to the district for deposit in the district's industrial development fund.)

Effective Date: July 1, 1999.

Explanation of State Expenditures: Under current law, the Budget Committee must review and make a recommendation to the Budget Agency after they are notified of a designation of a community revitalization enhancement district. The Budget Agency must approve the resolution designating the district. The Department of Revenue (DOR) must calculate the income tax base period amount and the gross retail base period amount for the district. The Treasurer must establish a incremental tax financing fund for the county who establishes the district. Money in the fund does not revert to the General Fund at the end of the fiscal year. Annually the DOR and the State Budget Agency must estimate and certify the amount of income tax and sales tax which will be collected from the district.

Explanation of State Revenues: (Revised) *Community Revitalization Tax Credit:* This bill allows Delaware County to establish two community revitalization enhancement districts. Taxpayers in these new districts would be entitled to a Community Revitalization Tax Credit which was established in P.L. 125-1998. The tax credit is available for qualified investment made for the redevelopment or rehabilitation of property located within a community revitalization enhancement district. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Department of Commerce.

The tax credit is based on 25% of the qualified investment. The tax credit may be used to reduce the taxpayer's tax liability under the following taxes: gross income, adjusted gross income, supplemental net income, county adjusted gross income, county option income, county economic development income, bank, savings and loan association, insurance premiums and financial institutions. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer may assign any part of the credit to a lessee of the property redeveloped or rehabilitated but must be in writing and reported to the Department of Revenue.

A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

This tax credit is similar to the existing Industrial Recovery Site/Dinosaur Credit Program. Since the Industrial Recovery Site credit was established in 1987, 30 buildings have been approved for approximately \$29 M in credits. These credits were based on an estimated \$133.3 M of qualified investments. The credits ranged from \$50,000 to \$9 M with the average credit being approximately \$1 M for an average of \$5 M of qualified investments.

Tax Increment: This bill will allow Delaware County to capture up to \$1 M of the incremental taxes annually which is generated in the districts. This revenue will be transferred to the district's industrial development fund. The covered taxes which will be included are sales tax, gross income tax, adjusted gross income tax, supplemental net income tax, county adjusted gross income tax, county option income tax, and county economic development income tax. State sales and income taxes are generally deposited in the State General Fund and Property Tax Replacement Fund. The State would be forgoing any new income or sales tax revenue up to \$1 M per county which would be generated by the development in a community revitalization enhancement district.

The tax loss from the establishment of this district is restricted to 15 years.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Community Revitalization District:* This bill allows for the establishment of two community revitalization enhancement districts in Delaware County. An ordinance must be approved or a resolution adopted by the legislative body of a municipality before an application can be made to an advisory commission on industrial development. An advisory commission on industrial development who is considering the designation of this type of district must have three additional members appointed by the Governor, the Lieutenant Governor and the Director of the Department of Workforce Development.

The advisory commission may adopt a resolution designating a particular area after making the following findings:

- 1) the area contains a building which meets specific criteria and has a specified number of employees in the area in comparison to 10 years ago;
- 2) the areas is located in or adjacent industrial park;
- 3) the area contains significant obstacles to redevelopment due to any of the following problems: obsolete or inefficient buildings; aging infrastructure or inefficient utility services; utility relocation requirements; transportation or access problems; topographical

obstacles to redevelopment; or environmental contamination.

Tax Increment: This bill will allow the district to capture the incremental taxes which are generated from new development in the district. This revenue is to be deposited in the industrial development fund. The covered taxes which will be included are sales tax, gross income tax, adjusted gross income tax, supplemental net income tax, county adjusted gross income tax, county option income tax, and county economic development income tax. The local taxing units which would normally receive a share of the total local option income taxes generated in this district under current statute will not receive the incremental revenue generated. The bill allows money in the industrial development fund to be pledged by the advisory commission to pay debt service on bonds and to maintain a debt service reserve fund.

The establishment of the community revitalization enhancement districts and the capture of these incremental taxes will be subject to local action and the ability of a community to meet the requirements set out in this bill. The district is limited to 15 years after the time of designation.

Current law also allows all taxing units, except townships, to impose a levy for the Industrial Development Fund at a rate of up to \$0.05 per \$100 of assessed valuation. The proceeds from the tax levy may be pledged for the payment of bonds and obligations issued in a Community Revitalization District. If areas within Delaware County are designated as districts as a result of this bill, then Delaware County would be permitted to pledge the property tax levy from the Industrial Development Fund for the payment of bonds and obligations.

State Agencies Affected: The Department of Commerce; the Department of Revenue; Treasurer of State; Budget Agency.

Local Agencies Affected: Delaware County; Advisory Commission on Industrial Development.

Information Sources: The Department of Commerce.